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# **SOCIAL AND MANAGEMENT RESEARCH JOURNAL**

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# Investors' Perception Towards Islamic Unit Trust in Malaysia

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## ABSTRACT

*The objective of the study is to determine the investors' perception towards Islamic unit trust in Malaysia. A cross tabulation analysis in terms of age, race and education was conducted based on 4283 samples throughout Malaysia on the basis of 23 self-administered questionnaires. The results of the study revealed that the respondents perceive the principle of halal, reputation of fund manager and high returns as the determining factors for their investment in Syariah unit trust. Generally, results of the study show that all ethnic groups in Malaysia still perceive insufficient information on Islamic unit trust as the key contributing factor that discourages them to invest. Specifically, the respondents who have higher education perceive better dissemination of information as the key determining factor for their investment in Islamic unit trusts. Therefore, the lack of information on Islamic unit trust has encouraged the non-Syariah investors to opt for a better alternative investment that they believe has lower risks and higher returns.*

**Keywords:** *Islamic unit trust, cross-tabulation, perception, self-administered questionnaires, principle of halal, ethnic groups*

## Introduction

Islamic investments appeal not only to Muslims but also the non-Muslims. It is interesting to note that Islamic investments are being practiced throughout the world and the size of Islamic funds in 2005 is expected to be more than USD500

billion and are managed by more than 250 Islamic institutions in 75 countries, where the growth is predicted to be around 15 % annually (Azian, 2005).

The concept of Islamic investments is synonym with ethical investments that attract investors who invest solely for religious purposes or humanitarian and social values (Anon, 2003). In Malaysia, the Islamic capital market is well-developed and managed to put Malaysia currently as a leading global market in Islamic finance. This vision is reinforced in the Capital Market Master Plan 2001 – 2010 of the Securities Commission, a regulatory agency for Malaysian securities, including unit trust funds.

As the Syariah unit trust funds have recorded a phenomenal growth since 2001, it reflects the acceptance of the investors in Malaysia (Azian, 2005). Therefore, this study is timely in determining the perception of investors towards Islamic unit trusts in Malaysia and hence, their acceptance of the portfolio of securities based on the syariah principles. To meet the objectives of the study, this research will focus on the perception as defined on the investments alternatives mentioned in the questionnaire specifically Islamic unit trust.

## **Research Objectives**

- i. To investigate the demographic profile of Islamic unit trust holders.
- ii. To determine the perception of Unit Trust holders towards Islamic Investment products.
- iii. To identify the main factors that influence on the unit trusts holders who are investing in Islamic Investment products, and
- iv. To propose new strategies and plan of action for the future market maker who are interested in Islamic Unit Trusts.

## **Problem Statement**

Research in the field of unit trust and mutual funds worldwide has so far been concentrated in the areas of mutual fund management, and size, fund performance (Pietranico, 2001), corporate disclosure (Jonathan, 2000) and performance of fund managers (Chen and Lin, 1998). However, there have not been much research in the areas of the investors profiles and the related strategies in the marketing of such funds in Malaysia, except a study by Azian (2005).

The creation of the Pilgrim's Fund Corporation in 1963 was the first ever-Islamic investment vehicle available for Muslims in Malaysia. With the introduction of the first syariah-based investment, its market has been growing steadily in Malaysia and Islamic investments not only appealing to Muslims but also to the non-Muslims. There are several Islamic investments available in

Malaysia such as shares, bonds, unit trusts and warrants that are regulated by Securities Commission of Malaysia. All such investments in Malaysia are not only governed by the Securities Commissions but also by Syariah Advisory Council (SAC), which becomes a milestone for rapid growth of Syariah securities, notably unit trusts. Therefore, this study will include the level of awareness of investors as one of the variables of investors' perceptions toward syariah unit trusts in Malaysia.

As the focus of the study is on the perception of individual investors, Certo (2000) defined perception as the psychological process of selecting stimuli, organizing the data into recognizable patterns and interpreting the resulting information. He further defined the perception process as a series of actions that an individual could follow in order to select, organize and interpret stimuli from the environment.

Likewise, Hellriegel, Slocum and Woodman (2001) defined perception as the selection and organization of environmental stimuli to provide meaningful experiences for the perceiver. The perception involves searching for, obtaining and processing information in the mind. It represents the psychological process whereby people take information from the environment and make sense of their words. On these two definitions of perception, the study will investigate, determine and identify the demographic profile of individual investors on their perception towards syariah unit trusts in Malaysia.

The syariah unit trust was first launched in Malaysia in 1993 with only three funds, but in 2003, there were 50 funds, representing about 1500 percent increase in its 10-year period, or a fantastic rise of 150 percent per annum. Since 31 January 2006, there have been 67 syariah unit trust funds available for trading, five managed by government-owned (managed by four companies) and 61 privately owned (managed by 24 companies) asset-management companies incorporated in Malaysia.

## **Methodology**

The data required for this research were collected using self-administered questionnaires especially designed to meet the research requirements.

### **Questionnaires**

A total of 23 questions were included in the structured questionnaire. The questionnaire contains 4 major sections, which include the following:

Section 1: This section is designed to cater for information on investors' demographic profile and one question on the types of Islamic investments.

Section 2: This section indicates the customers' awareness on Islamic investments.

Section 3: The third section concentrates on the investors' perception on Islamic unit trust.

Section 4: The fourth section mainly focuses on the non-Syariah investors.

Section 5: The final section is designed to gather information on the non-investors.

The questionnaire was tested and modified accordingly taking into consideration the time constraint and wording.

### **Pilot Survey**

Two principal researchers performed a pilot study where 100 respondents participated. Each respondent took approximately five minutes to answer one questionnaire. The questions were further improved based on the recommendations made during the pilot study.

The actual survey kicked off in April 2005. Two principal researchers and two enumerators conducted the distribution of questionnaires. The survey was completed in September 2005.

### **Data Analysis**

The completed data was verified for technical and logical errors before performing the statistical analysis.

The SPSS (Statistical Package for Social Science) was used to generate the descriptive statistic, one-way frequency table, cross tabulation and the Chi-Square Test of Independence.

A cross tabulation analysis was conducted to determine the perception of respondents towards Islamic Unit Trusts in Malaysia. Respondents are allowed to choose more than one reason for their investment decision.

As an underlying theme of the study, respondents were then asked on their awareness on Syariah investments. Surprisingly, it was found that 59% of the respondents were not aware of the existence of Syariah investment; despite it being launched as early as 1993, with the introduction of Ittikal Fund managed AmBank Investment.

Subsequently, the respondents who were aware of the existence of Syariah investments were further asked the sources information about Syariah investment. According to the respondents, 28 % and 26 % of the information were obtained from newspapers and radio, respectively followed by magazine (15%), pamphlets (17%) and advertising board (9%). As such, it is interesting to note that newspapers and radio are the main source of information, contributing more than 50%.



To answer to the objective of the study, respondents who were aware of the Syariah investment were asked whether they hold any Syariah investment. Their responses were, 48% had already invested and the remaining 52 % had not invested in Syariah investment. Therefore, more than 50% of respondents are the prospective investors of Syariah Unit Trust, notably the respondents with higher level of education.

Likewise, from the respondents who have invested in the Syariah investment, questions were asked on the products that they had invested. Since most of the respondents were Malays, Tabung Haji scored the highest with 33%, followed by Saham Amanah with 23% and Takaful with 17%.

Respondents of the syariah investment trust were also asked on the main characteristics of their choice. Majority of the respondents chose the non-riba factor with 44.% followed by dividend with 23 %, price 17%, network of agent 7%, maximum limit 9% and others 1.3%.

From the cross tabulation between factors affecting the decisions of non-Syariah investors and the age factor, it was found that those in the age group of 18-29 perceived better dissemination of information as the main factor affecting their decision to invest, followed by better alternative investment (37%), high risk (33%), unattractive returns (33%) and difficulty in selling back the units (32%).

The cross tabulation also shows that the non-Syariah investors from the age group of 30-39 said that sufficient information plays a vital role in influencing their decisions regarding Islamic unit trust (48%) followed by the unattractive return (43%), better alternative investment (40%) difficulty in selling back the units (36%) and the non-competitive price (35%).

The findings also revealed that those in the age group of 40-49 also perceived that sufficient information as an important factor that may influence the non-Syariah investors to invest in Islamic unit trust. Besides that better alternative investment (45%), sales and purchase quotas (39%), no confidence on the fund managers (34%) and non-assurance of the investment (32%) also influence their decision to invest in syariah unit trusts.

For those above 50 years of age, lack of information is the main contributing factor that hinders their decision to invest on Islamic unit trusts (54%). The services rendered (44%) also plays an important role in influencing the decision of the non-Syariah investors followed by better alternative investment (40%) and non-competitive price (37%).

Above all, the non-Syariah investors perceived, that better dissemination of information is the key determinant in their decision to invest on Islamic unit trust. Due to the lack of information on Islamic unit trust, the non-Syariah investors had opted for a better alternative investment that they believed has lower risks and higher returns. Therefore the asset-management companies of syariah unit trusts should place a concerted effort in promoting effectively and aggressively that Islamic funds that can meet this long-term objective of non-syariah investors in term of lower risk and higher return.

## **Conclusion**

On the basis of 23 self-administered questionnaires, respondents were asked to select from the most favorable response from each statement with regards to their perception on Islamic unit trust. The study summarises the following key findings:

- The respondents perceived that the principle of halal, the reputation of the fund manager and high returns contributed to the investor's choice in choosing unit trust.
- The least reasons for choosing unit trust are the quality of the services, the selling back services, confidence in the fund managers, the timeliness on receiving cash after unit sales and the financial capabilities of the fund manager.

Generally, the results showed that all ethnic groups in Malaysia still perceive insufficient information on Islamic unit trust as the key contributing factor that discourages them to invest. Specifically, the respondents who have higher education perceive better dissemination of information as the key determining factor for their investment in Islamic unit trusts. Therefore, the lack of information on Islamic unit trust has encouraged the non-Syariah investors to opt for a better alternative investment that they believed has lower risks and higher returns.

## **Recommendations**

As Malaysia is set to become the 'Halal Hub' of global financial markets, unit trust fund is seen to get better attention among the individual investors. This is justified as the respondents perceive the principle of 'halal' as the primary contributing factor for their decision to invest in the capital market, specifically unit trust funds. Likewise, with the reputation of Amanah Saham Nasional (ASN) as the biggest fund manager for unit trust in Malaysia, ASN seems to have strong branding names for the successful launching of its first syariah for the Malaysian Muslim investors. In addition, with the strong marketing strategy and aggressive promotion of its existing funds, ASN has ample opportunity to disseminate sufficient information to its existing and potential unit trust holders both syariah and non-syariah investors.

In fact, ASN is seen as not only being able to capture investors with low educational background (certificate or below), but also the highly educated investors (diploma and above) who still perceive better dissemination of information as the determining factor for their investment in the syariah unit trust funds. Therefore, it is timely for ASN to offer syariah unit trusts as its new portfolio of investment, and hence, is set to become a premier player in the

Malaysian unit trust market, in particular, and Malaysian Islamic capital market, in general, as what it has is testimony of its success in the conventional unit trust funds in Malaysia.

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